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ABSTRACT

Estimates of the General Accounting Office (GAO) concerning the costs of S. 249, the "Parental and Medical Leave Act of 1987," differ substantially from estimates of the U.S. Chamber of Commerce. The legislation would provide job protection to employees while allowing them 18 weeks of unpaid leave to care for a newborn or seriously ill child and 26 weeks of unpaid leave for their own serious illness. Chamber and GAO estimates differ on costs of leave to care for new children, leave to care for seriously ill children, temporary medical leave, and lowered productivity. This document contains both summary and full-text versions of the differences in cost estimates, and a brief review of the key provisions of the bill and the methodology used to critique the Chamber's account. Supplementing the report is a table contrasting key assumptions of the Chamber of Commerce with GAO views on several issues related to determining costs of the three categories of leave. (RH)

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S. 249, The "Parental and Medical Leave Act of 1987"

Statement of
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Before the
Subcommittee on Children, Families, Drugs, and Alcoholism
Committee on Labor and Human Resources
United States Senate

GAO/T-HRD-87-10

SUMMARY OF GAO TESTIMONY BY WILLIAM J. GAINER ON S. 249, THE "PARENTAL AND MEDICAL LEAVE ACT OF 1987"

S. 249 would provide job protection while permitting employees 18 weeks of unpaid leave to care for a new or seriously ill child and 26 weeks of unpaid leave due to their own serious illness.

The Chamber of Commerce estimates the costs of this bill at $23.8 billion. GAO believes the estimate is high because of a variety of assumptions it makes regarding (1) employee usage rates and (2) the likelihood and costs of replacing them. The Chamber also makes no offsetting adjustments for some likely benefits and savings resulting from this legislation.

Leave to Care for New Children. The Chamber assumed that 50 percent of working men and women with children under age 1, currently employed by firms that do not offer parental leave, would use the full 18 weeks provided for in S. 249; and that all leave users will be replaced by temporary help. National studies and an informal survey GAO made of employers who offer parental leave broadly analogous to S. 249 indicate that the number of users would be closer to half what the Chamber estimates; not every leave user will take the full 18 weeks; and firms sometimes reroute work, especially among managers and professionals, rather than replace employees with temporary help.

Leave to Care for Seriously Ill Children. The Chamber estimated costs based on the number of days a child is home sick during the school year. GAO believes the legislation excludes school days missed due to common colds and other illnesses lasting only a few days. By calculating the number of workweeks lost due to only serious illness and making other adjustments, GAO estimates the potential workweek loss to be about a quarter of the Chamber's estimate.

Temporary Medical Leave. The Chamber calculated usage of this provision by estimating the number of people not in the work force due to illness or disability and not receiving federal permanent disability payments. Using national health statistics to estimate the number of workweeks that would be lost by workers confined to bed for extended periods and reducing this number to account for states that already require some form of temporary medical leave, results in an estimated usage of about 25 percent of the Chamber's figure.

Productivity. The Chamber's cost estimate of "lost productivity resulting from inexperienced personnel," about one-third of its total for the new child and temporary medical leave provisions, is likely too high. It overestimates the difference in work experience, and thus productivity, between those using leave and their replacements. Another factor is that the Chamber omits any potential productivity gains and related savings resulting from reduced job turnover and improved employee morale.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today in response to your request that we critique the U.S. Chamber of Commerce estimate of the costs of S. 249, the "Parental and Medical Leave Act of 1987." At your request and Senator Specter's, we are developing an independent estimate of these costs, which we expect to complete in September. My remarks regarding the Chamber's estimate must therefore be viewed as preliminary. I would also like to mention that making estimates of this nature, as the Chamber and we are doing, is difficult and always subject to challenge because of a lack of hard data upon which to predict behavior and thus costs. Nonetheless, our work thus far is sufficient to comment on some of the key assumptions and data sources the Chamber used in developing its estimate.

In brief, we believe the Chamber's cost estimate is high because it used a variety of unrealistic assumptions about

- -- the number of people who would use unpaid leave and the length of their unpaid absences,
- -- the number of leave users who would be temporarily replaced, and
- -- the cost of hiring these replacements.

In addition, the Chamber made no offsetting adjustments for some likely benefits and related savings, such as improved employee morale, reduced turnover, and a more experienced, loyal, and committed work force. We recognize though, that some of these benefits are not readily measurable. Finally, the Chamber notes, but makes no adjustments in its estimate for the fact that employers may, to some extent, defray their costs by reducing other benefits.

I will elaborate on these points, but would first like to briefly explain the key provisions of the bill and the methodology we used in our critique.

KEY PROVISIONS

S. 249 would require federal, state, and local governments and any company employing 15 or more people to grant an employee (male or female) up to 18 weeks of unpaid leave over a 24-month period upon the birth, adoption, or serious health condition of a child. An employee could also take up to 26 weeks of unpaid leave over a 12-month period when a serious health problem makes it impossible for him or her to work. While on unpaid leave, employees would continue to contribute toward and receive health benefits on the same basis as if they were working. Other benefits, such as life insurance and retirement, need not be continued. Upon returning to work, an employee would resume the same job or an equivalent one. The legislation can be viewed

principally as a job protection measure, although the health benefit continuance (and other factors) will result in costs to employers. The legislation would not apply to the 80 percent of all firms employing fewer than 15 people or the 20 to 25 percent of all workers who are employed by these small companies.

GAO's METHODOLOGY

Our first step was to examine the principal national surveys and studies of employee benefits and company policies related to parental and medical leave to obtain information on the extent to which leave similar to that guaranteed under S. 249 is offered by employers and used by employees. The surveys and studies, while limited in terms of both the amount of data they collected and the extent to which their findings can be generalized, do provide a rough picture of (1) the people most likely to use these benefits, (2) the kinds and sizes of firms that offer similar benefits, and (3) the costs and benefits that should be considered in analyzing this legislation.

We also used the Current Population Survey (CPS) to obtain demographic data on employed people, which allowed us to estimate the number of people likely to be covered by the legislation's provisions permitting leave to care for a new child; and National Health Interview Survey data to estimate the number of (1) parents likely to be eligible for unpaid leave to care for a seriously ill child as well as (2) workers who might take temporary medical leave.

Finally we conducted an informal survey of 15 large employers (generally over one thousand employees) having parental and medical leave policies broadly analogous to those mandated by S. 249. (For confidentiality reasons, we are not identifying these employers.) We asked these employers for information on the number of employees who used leave, the average length of absences, whether employees were temporarily replaced, and their reasons for adopting such leave policies. Information on actual leave usage was provided by only three employers, although another 10 provided estimates. Obviously, these data are not statistically representative of all companies that offer parental and medical leave. The behavior in such firms is also not likely to be predictive of how all employees and firms would respond if S. 249 were enacted. However, these responses do provide some insights into what might occur.

I should mention that we reviewed the Chamber cost estimate dated March 10, 1987, rather than the higher estimate provided in testimony before this Subcommittee on February 19. The Chamber currently estimates the total cost of S. 249 at $23.8 billion annually.

I will now elaborate on our findings.

LEAVE TO CARE FOR NEW CHILDREN

The Chamber's most recent estimate of the cost of this provision ($2.6 billion annually) assumes that 50 percent of all working men and women with children under the age of 1, currently employed by firms that do not offer parental leave, would use the full 18 weeks provided in S. 249. The surveys we reviewed and employers we spoke with indicate that few men use parental leave, but that perhaps as many as 75 percent of women use some unpaid leave when it is available. It is also unlikely that many single parents would be able to afford more than minimal unpaid absences. Married women represent 38 percent of those in the labor force with children under 1 year of age. Even if 75 percent of married working women use unpaid leave, the number of users would be closer to half the number the Chamber estimates.

We also think it is unlikely that all people taking this unpaid leave would use the full 18 weeks permitted, simply because not everyone could afford it. Furthermore, those who have sick and annual leave available would likely substitute some paid leave for the unpaid leave. Thus far, however, we have found no satisfactory data for estimating the likely length of usage.

The Chamber also assumed that all those people taking leave would be replaced using more costly temporary help provided by temporary agencies. It estimated the cost of such replacement hiring at about 18 percent higher than the costs of those replaced.

Our discussions with employers and our review of national studies, however, indicate that firms sometimes do not replace employees, especially those in managerial and professional positions. Companies will attempt to redirect their work among its existing work force. When firms use temporary help, they use a combination of temporary employment services and direct hiring, preferring of course to use lower cost direct hiring. Some firms maintain a pool of temporary workers, who are paid hourly wages but not fringe benefits, to cover employee absences. Large firms likely have greater flexibility with regard to these options than small firms, and small firms that rely on the specialized expertise of key employees may face even more difficult problems.

While we are unable to provide a better estimate of how many employees might be replaced at this time, it is clear that firms will neither replace all those taking unpaid leave nor will the costs of all temporary help be 18 percent higher than the costs of permanent employees.

The Chamber also assumed a significant productivity loss, a subject I will address separately.

LEAVE TO CARE FOR SERIOUSLY ILL CHILDREN

The legislation permits unpaid leave in order to care for a child who has a serious health condition. This is defined as an illness, injury, impairment, or physical or mental condition that involves (1) inpatient care or (2) continuing treatment or supervision by a health care provider.

The Chamber estimated the cost of this provision as $12.9 billion annually by using the average number of days children in the United States are home sick each school year (5 days), multiplying by the number of all school children, and assuming that one parent would be absent for each day of school these children missed. It then used a weekly productivity loss figure to estimate the cost.

We believe that a serious health condition as defined in the legislation excludes school days missed due to common colds or other illnesses lasting only a few days. For this reason, we think the Chamber's estimate is rather high. To elaborate, the intent of the legislation seems to be to allow absences for only those illnesses or accidents that would result in substantial bed time (although as now written this provision may need clarification).

Using data collected by the National Center for Health Statistics provides an alternate methodology. For example one could use the number of children who were confined to bed for more than 30 days during the year as a proxy for those with a serious health condition. Assuming that one parent would stay home for the length of the child's illness, as the Chamber did, up to a maximum of 18 weeks, would reduce the work loss to 5.3 million workweeks, or about 28 percent of the Chamber's estimate for this portion of the bill. Some parents would likely use their annual leave as part of the period of absence and others would find it too costly to remain off work for the entire illness, which would further reduce the Chamber's estimate.

TEMPORARY MEDICAL LEAVE

This portion of the Chamber's cost estimate ($8.3 billion) is based on (1) CPS data on the number of people not in the labor force because of illness or disability and (2) Social Security Administration data on the number of people collecting permanent disability payments. It is unclear to us whether the difference between these two figures is a good measure of the number who would be eligible for unpaid leave under the legislation. However, we know that the Chamber's estimate made no adjustment for five states (California, Hawaii, New Jersey, New York, and Rhode Island) that already provide temporary disability insurance. In these states a worker can take time off, with partial wage replacement, for short-term disabilities.

We did devise an alternative methodology using data from the National Center for Health Statistics on the number of days per year workers over 18 years of age were confined to bed. Using roughly the same methodology used for children and limiting absences to a maximum of 26 weeks, we estimate that about 18.2 million workweeks of unpaid leave could be used, or about one-third of the Chamber's estimate. When workers in the five states mentioned above are subtracted the estimate of lost weeks drops to about 25 percent of what the Chamber estimated. To the extent that firms currently offer employees extended unpaid absences and employees exhaust paid sick leave when possible, the incremental cost of this provision would be further reduced. It is also likely that many employers already make accommodations for extended absences when employees become ill or are injured.

PRODUCTIVITY

About one-third of the Chamber's cost estimates for the new child and temporary medical leave provisions are for "lost productivity resulting from inexperienced personnel." This productivity loss probably exists but is very difficult to estimate. Nonetheless we believe the Chamber's estimates are likely too high.

For example, the Chamber may overestimate the productivity loss by assuming greater employment tenure for absent employees with infant children than is realistic. It uses data showing that the median job tenure of men and women in the 25-to-34 year age group is about 3-1/2 years. Since the median child-bearing age falls in that age group, it used that figure, multiplied by a 3 percent increase in productivity per year of experience to arrive at a 10 percent (rounded) productivity difference between an employee in this age group and a less experienced replacement.

Since national surveys indicate, and firms with parental leave policies told us, that few men use unpaid leave, it might be more appropriate to use the median job tenure for married mothers age 16 to 44--which is about 2.6 years. If the Chamber's general methodology is used, the productivity loss would then be 7.8 percent rather than 10 percent, reducing the Chamber's productivity loss estimate by about 22 percent, before considering lower usage and absence length as discussed earlier.

Another factor is that the Chamber estimate omits any potential productivity gains associated with the legislation. The cost of this bill consists of incremental direct costs, which we've discussed at some length, less (1) any costs the economy is currently bearing by not providing these benefits, and (2) any possible offsetting reductions in other benefits. By presenting only the direct costs without discussing the benefits or any offsets, the Chamber looks only at one side of the balance sheet.

The most important benefit the bill provides is the job protection it offers, which could also reduce job turnover and in fact enhance average productivity. When a competent employee loses his or her job, the economy loses a productive worker, who must then invest resources in job search. The employer in turn loses an experienced worker and must bear the cost of recruiting and training a permanent replacement. As evidence that this is a real benefit, I note that during times of economic downturn, employers prefer temporary layoffs to firing in order to avoid the costs of recruitment and training.

Improved employee morale is likely another (perhaps unmeasurable) benefit of this legislation. An employee provided the opportunity to deal with important personal problems may feel more positively towards an employer. Conversely the parent of a seriously ill child, without the flexibility to take needed leave may be unable to concentrate fully on his or her work. If in fact such a parent is less than fully productive, the productivity loss resulting from a temporary absence diminishes.

Representatives of the larger employers we spoke with believe there are substantial benefits from their parental or temporary medical leave policies. One representative told us that, of the 180 women who used parental leave last year, only 4 did not return to work. She believed that the company benefited through the continued availability of its experienced work force. Another representative indicated that, because her company invested a great deal in its employees through training, retaining those experienced employees was cost-effective.

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Mr. Chairman, this concludes my prepared statement. I and my colleagues will be pleased to answer any questions you and the other members of the Subcommittee may have.

GAO

Key Assumptions in Determining Costs of Leave to Care for New Children

Issue	Chamber of Commerce Assumption	GAO View
Workforce Affected	Working parents with children under age one	Working married women with children under age one (38% of eligible population)
Usage	50% of parents would take leave; all would take full 18 weeks	75% of married women would take leave; not all could afford or desire 18 weeks
Number Replaced	Everyone who took leave	Not all who took leave (for some, work is redirected to other staff)
Cost of Replacing Workers	All replacements hired through temporary service agencies, which cost 18% more than those replaced	• Some replaced through less costly direct hires • For some firms, temporaries cost less

GAO

Key Assumptions in Determining Costs of Leave to Be with Seriously Ill Children

Issue	Chamber of Commerce Assumption	GAO View
Definition of "Serious Illness"	All schooldays missed by all children age 5-14	30 or more "bed days" for children under age 18
Workforce Affected	One parent per child	One parent per child
Usage	5 days per child	Average 7.5 weeks per seriously ill child
Total Workweeks Lost	19.2 million workweeks	5.3 million workweeks

GAO

Key Assumptions in Determining Costs of Temporary Medical Leave

Issue	Chamber of Commerce Assumption	GAO View
Workforce Affected	Ill/disabled persons out of labor force minus social security permanent disability beneficiaries	Workers over age 18 with 30 or more "bed days"
Usage	All would take the full 26 weeks	Average about 8.2 weeks
Number Replaced	Everyone who takes leave	Not all who take leave (for some, work is redirected to other staff)
Projected Cost to Replace Workers	All replacements hired through temporary service agencies, which cost 18% more than those replaced	• Some replaced through less costly direct hires • For some firms, temporaries cost less
Extent Now Offered	Not taken into account	Costs reduced by firms already providing benefit